

Message Text

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ACTION AID-59

INFO OCT-01 NEA-10 ADP-00 EB-11 XMB-07 TRSE-00 NSC-10

IGA-02 L-03 CIAE-00 INR-10 NSAE-00 RSC-01 RSR-01

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O R 161142 Z MAY 73

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC IMMEDIATE 9244

INFO AMEMBASSY DACCA

C O N F I D E N T I A L ISLAMABAD 4012

FOR MAC DONALD, AA/ ASIA, ALSO FOR E AND NEA

E. O. 11652: GDS

TAGS: EFIN, PK, BG

SUBJECT: PAKISTAN DEBT DIVISION

REF: A. ISLAMABAD 3645

B. ISLAMABAD 3305

C. STATE 84339

SUMMARY: WE CONTINUE TO HOPE THAT PAKISTAN WOULD AGREE TO CONTINUED LIABILITY FOR EAST PAKISTAN DEBT FOR ANOTHER YEAR AND OFFERS ADDITIONAL SUGGESTION TO MAKE PROPOSAL MORE ATTRACTIVE. END SUMMARY.

1. HAVING GIVEN FURTHER CONSIDERATION TO STATE OF PLAY ON DEBT DIVISION ISSUE AS SEEN FROM ISLAMABAD THIS, MISSION IS IMPRESSED WITH ADVANTAGES TO BOTH PAKISTAN AND DONORS TO BE GAINED BY PAKISTAN ACCEPTANCE FORMULATION SIMILAR TO CONSORTIUM PROPOSAL IN MARCH. CARGILL PROPOSAL FORMULATED ON ASSUMPTION THAT NEITHER BANGLADESH NOR PAKISTAN WOULD BUDGE FROM PRESENT POSITION. WHILE OUTCOME NECESSARILY UNCERTAIN, WE BELIEVE NEGATIVE ASPECTS OF CARGILL QUOTE HOLD UNQUOTE PROPOSAL SUFFICIENTLY IMPRESSIVE TO WARRANT ANOTHER TRY.

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2. WHETHER QUOTE HOLD UNQUOTE HANDLED QUIETLY OR NOT THE FACT OF PAKISTANI TECHNICAL DEFAULT WOULD BE UNIVERSALLY KNOWN AND WOULD AFFECT BOTH PRIVATE AND PUBLIC DECISION - MAKING PROCESSES ON DEVELOPMENT- RELATED MATTERS TO THE DETRIMENT OF PAKISTAN.

3. MOST OF OUR THINKING ON THE DEBT DIVISION QUESTION HAS BEEN PROVIDED IN EARLIER MESSAGES. SEE IN PARTICULAR, PARA 3, REF. B. HOWEVER, WE HAVE BEEN CONSIDERING ADDITIONAL WBFOB IN WHICH CONSORTIUM PROPOSAL FOR ONE YEAR EXTENSION OF LIABILITY BY PAKISTAN MIGHT BE EMBELLISHED TO BE MORE ACCEPTABLE TO PAKISTAN. WE NOTE THAT PAKISTAN HAS STRESSED ITS DESIRE FOR LONG TERM RESCHEDULING. WE ALSO RECOGNIZE THAT LONG TERM RESCHEDULING MUST BE CONSIDERED BY DONORS IN LIGHT ECONOMIC FACTS INCLUDING PRIMARILY ANALYSIS OF DEBT STRUCTURE VIS- A- VIS FOREIGN EXCHANGE EARNING CAPACITY. IN PAST DONORS HAVE TAKEN POSITION THAT FOR PAKISTAN QUESTION OF LONG TERM DEBT RESCHEDULING CAN BE CONSIDERED ONLY AFTER QUESTION OF DEBT DIVISION OUT OF THE WAY.

4. AS AMENDMENT TO PAST POSITION OF DONORS, SUGGEST CONSORTIUM MIGHT IMPROVE ITS POSITION WITH PAKISTAN BY AGREEING TO IMMEDIATELY BEGIN INTENSIVE REVIEW OF LONG TERM RESCHEDULING QUESTION WITH FOLLOWING UNDERSTANDING: A) CONSORTIUM AGREES TO ADVANCE THAT PAKISTAN WOULD IN RESCHEDULING BE PROVIDED WITH LONG TERM RELIEF SUFFICIENT TO OFFSET QUOTE PRESENT VALUE UNQUOTE OF ANY BURDEN OF SERVICE PAYMENTS FROM BOTH PROJECT AND PROGRAM DEBT RELATED TO EAST PAKISTAN NOT COVERED BY BANGLADESH IN A DIVISION AGREEMENT, B) QUESTION OF RELIEF BEYOND THIS STRICTLY RELATED TO OUTCOME ECONOMIC ANALYSIS.

5. PAKISTAN WOULD BE ABLE TO CITE THIS FORMULATION AS DE FACTO AGREEMENT BY CONSORTIUM TO DEBT DIVISION THUS STRENGTHENING PAKISTAN'S CREDIT POSITION. PAKISTAN LIKewise WOULD GAIN EARLIER SERIOUS CONSIDERATION BY CONSORTIUM OF CASE FOR LONG TERM DEBT RESCHEDULING. CONSORTIUM BY THIS FORMULA WOULD AGREE TO RELIEF FOR PAKISTAN ONLY TO EXTENT THEY ALREADY HAVE AGREED IN PRINCIPLE (AGREEING THAT BANGLA-
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DESH SHOULD ASSUME RESPONSIBILITY FOR SHARE OF DEBT), BUT WOULD RESERVE JUDGMENT ON QUESTION OF RESCHEDULING OF DEBT ASCRIBED TO WEST PAKISTAN.

6. IN ANY CASE, WE BELIEVE CONSORTIUM AT MAY 30 MEETING MIGHT WELL URGE CARGILL TO PRESENT CONSORTIUM POSITION ONCE AGAIN TO GOP, PERHAPS IN VISIT TO PAKISTAN IMMEDIATELY

AFTER MEETING. UNDER THIS PROCEDURE CARGILL QUOTE
HOLD UNQUOTE PROPOSAL WOULD BE KEPT AS LESS DESIRABLE
FALL- BACK POSITION GIVING PAKISTANIS OPPORTUNITY TO AGREE
TO PROPOSAL WHICH WOULD LEAVE CREDITOR- BORROWER RELATION-
SHIPS IN BETTER POSITION.

7. AID DIRECTOR' S MEETING WITH QUMARIL ISLAM POSTPONED
UNTIL MAY 21. HOWEVER, ISLAM IN TELECON EXPRESSED
INTEREST IN DISCUSSING DEBT QUESTION.
SOBER

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